



**CITY OF NELSON, MISSOURI
YEAR ENDED JUNE 30, 2003**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-78
September 29, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

September 2004

The following problems were discovered as a result of an audit conducted by our office of the City of Nelson, Missouri.

A previous state audit of the City of Nelson, dated January 7, 1998 (1998-01) made 21 management recommendations to the city. Of those recommendations, 1 has been implemented, 10, have been partially implemented and 10 have not been implemented by the city. Many of those prior conditions have been repeated in this report.

The City Clerk is responsible for all record keeping duties of the city including duties which would normally be performed by a City Treasurer. This is contrary to an Attorney General's opinion and jeopardizes the system of independent checks and balances intended by state law. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk.

Because the city has not established procedures for the review of the work and records of the City Clerk, numerous recording, depositing, and disbursing errors made while a new City Clerk was in office from August to November 2003, were not detected. It appears the City Clerk's inexperience and the board's failure to adequately review the monthly financial statement and/or bank reconciliations contributed to these conditions. Numerous adjustments and transfers are needed to city records. Additionally, the city's current procedures do not ensure payroll and payroll taxes are allocated to the proper funds.

Controls over water deposits should be improved. Also, some Water Fund monies are not maintained in an interest-bearing account, resulting in the loss of approximately \$300 of interest revenues during the year ending June 30, 2003. Water service is not always shut-off in accordance with the city code when water accounts are delinquent.

Passwords and user identification codes (IDs) are not used to restrict access to the city's computerized accounting and water/trash billing and collection records. Additionally, city hall is not always occupied and there is unrestricted access from the community center. Also, backup copies of computer programs and data are not prepared and stored off-site.

The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids is made on a item-by-item basis. For example, only one bid was obtained for large purchases such as water tower tank service costing \$22,355 and property and liability insurance costing \$2,475. Also, vendor invoices or other supporting documentation were not properly retained for some disbursements. Additionally, contrary

(over)

YELLOW SHEET

to state law, the city does not prepare and adopt annual budgets, or publish semi-annual financial statements.

Numerous problems were noted with the city's procedures for conducting and documenting board meetings including;

- Board minutes are not signed to attest to their completeness and accuracy.
- Meeting notices and agendas are not prepared for regularly scheduled monthly board meetings. Only meeting notices for special board meetings are prepared.
- Board minutes did not always include sufficient detail of matters discussed and action taken.
- Minutes are not maintained of closed board meetings and open meeting minutes did not always document the related vote to close the meeting and the specific reasons for closing the meeting.
- The city does not have a formal policy regarding public access to city records.
- The board did not always hold public hearings on the city's proposed property tax rate as required by state law.

The Water Fund financial records show a cash balance of \$169,716 at June 30, 2003, with operating expenses and transfers totaling approximately \$32,000 for the year ended June 30, 2003. The Mayor indicated the city is saving money for future repair and replacement costs. However, there is no documentation to support how the water fee was calculated and how much money is necessary to meet future repair and replacement costs. Water fees are user charges which should cover the costs of providing the related service and maintaining the system, but the rates should not be set at a level which results in an excessive fund balance.

Also included in the report are recommendations to improve records and procedures for city ordinances, capital asset records, and community center policies.

All reports are available on our website: www.auditor.mo.gov

CITY OF NELSON, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-19
<u>Number</u>	<u>Description</u>
1.	Accounting Controls and Procedures.....5
2.	Computer Controls and Procedures9
3.	Minutes, Meetings, and Ordinances.....10
4.	Budgets and Financial Reports13
5.	Disbursements.....15
6.	Water Rates.....17
7.	Community Center.....18
8.	Capital Asset Records.....19
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	20-23

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Nelson, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Nelson, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2003. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions

was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Nelson, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

June 7, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Cheryl L. Colter, CPA, CGFM
Audit Staff:	Joyce Thomson

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF NELSON
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Accounting Controls and Procedures
-----------	---

Numerous weaknesses were noted in the city's accounting controls and procedures. One individual serves as the City Clerk and City Treasurer and many errors in the former City Clerk's records were not detected and/or corrected. In addition, bond coverage is not adequate and old outstanding checks are not followed up on. Furthermore, a ledger for water deposits is not maintained, some monies are not maintained in an interest bearing account, water is not always shut-off in accordance with the city code, and payroll and payroll tax expenses are not allocated to the proper funds.

- A. The City Clerk is responsible for all record keeping duties of the city, including duties which would normally be performed by a City Treasurer. The duties include billing water and trash fees, monitoring delinquent water and trash fee accounts, receiving and depositing monies, maintaining payroll records, reviewing invoices, preparing and distributing checks, recording receipts and disbursements, and preparing monthly financial reports and bank reconciliations. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law. If segregating these offices is not possible, at a minimum, procedures for adequate independent review should be established. The errors noted below could have been detected and corrected on a timely basis if an independent review had been performed.

A similar condition was noted in our prior report, and the city indicated the board agreed with this issue; however, no action was taken to implement the prior recommendation.

- B. Because the city has not established procedures for the review of the work and records of the City Clerk, numerous recording, depositing, and disbursing errors made while a new City Clerk was in office from August to November 2003, were not detected. It appears the City Clerk's inexperience and the board's failure to adequately review the monthly financial statement and/or bank reconciliations contributed to these conditions.

As a result, the city's bank accounts and books for its major funds are in disagreement. The following transfers need to be made to correct the bank accounts:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Reason</u>
Road Maintenance Fund	Water Fund	\$500	The paving reimbursement payment for November 2003 was recorded, but the money was not transferred.
Water Fund	Road Maintenance Fund	171	Trash fees for September and October 2003 were not transferred.
Water Fund	General Fund	113	Property taxes for September 2003 were deposited in the wrong fund.
General Fund	Road Maintenance Fund	84	Trash fees for August 2003 were deposited in the wrong fund.

In addition, to reconcile the books to the bank accounts, the following adjustments need to be made to the books to correct the errors noted:

- Deposits totaling \$821 were recorded twice in the Road Maintenance Fund.
- Deposits totaling \$805 were erroneously recorded in the Water Fund.
- Deposits totaling \$670 were recorded twice in the Water Fund.
- A \$500 disbursement was recorded twice in the Road Maintenance Fund.
- An \$84 disbursement was recorded twice in the Water Fund.
- A \$68 deposit was recorded twice in the General Fund.

Furthermore, between September and November 2003, deposits exceeded recorded receipts by \$399.

The board should require the current City Clerk to make the fund transfers and adjustments as necessary to correct the errors in the city's accounting records.

- C. The Mayor and one alderman are authorized to sign checks; however, the city does not have bond coverage for them. Failure to properly bond all persons with access to assets exposes the city to risk of loss.
- D. Although bank reconciliations are prepared monthly, procedures have not been established to routinely follow up on outstanding checks. At February 29, 2004, checks totaling \$1,358 and \$466 had been outstanding for over one year in the general and water operating accounts, respectively. Several of these checks had been outstanding for over four years. In addition, the board minutes indicated some of these checks were never issued and/or were returned uncashed.

Procedures should be established to routinely investigate any checks remaining outstanding over a specified period of time. Old outstanding checks should be voided and reissued to those payees who can be readily located. If the payees cannot be located, amounts should be paid out in accordance with applicable state laws. Checks not issued and/or returned uncashed should be voided and removed from the outstanding check list on the monthly bank reconciliation. In addition, voided checks should be posted to the city's computerized financial records on a timely basis to ensure the city's financial records are accurate and complete.

- E. Controls over water deposits should be improved. Water deposits are recorded on each customer's account and listed on the monthly water billing report. However, the deposit list does not appear complete. For example, a \$50 water deposit received in July 2003 was not recorded on the customer's account.

The city can improve controls over water deposits by maintaining a control ledger of water deposit receipts, disbursements, and balance and reconciling the balance to the total individual water deposits per the monthly water billing report. These procedures will help ensure records are in balance and all water deposits are accounted for properly.

- F. Some Water Fund monies are not maintained in an interest-bearing account. At February 29, 2004, Water Fund monies totaling approximately \$19,000 were maintained in a non-interest bearing account. The failure to have the funds in an interest-bearing account resulted in the loss of approximately \$300 of interest revenues during the year ending June 30, 2003. To maximize interest earnings, all funds should be placed in interest-bearing accounts.
- G. Water service is not always shut-off in accordance with the city code when water accounts are delinquent. The city code provides that water service is to be disconnected if the bill is not paid by the first of the month following the month in which the bill was rendered.

We noted instances where water was not disconnected as provided by the city code when customers accumulated significant delinquent balances. For example, a customer initiated service in June 2003, but made no payments for the services.

When the city shut-off the services in October 2003, the delinquent balance totaled \$110. Another customer's service was shut-off in January 2004 with a delinquent balance of \$121. This customer had not made any payments since August 2003.

Allowing customers to receive service for long periods of time without paying reduces the incentive to make payments. The city should ensure that water is shut-off in accordance with city code when water accounts are delinquent.

- H. The city's current procedures do not ensure payroll and payroll taxes are allocated to the proper funds. Although the City Clerk performs various administrative functions and handles all of the city's financial records, her salary is paid entirely from the Water Fund. In addition, the employer's share of payroll taxes are paid entirely from the General Fund for the City Clerk and Water Operator. The salaries and payroll taxes for the mayor and aldermen are paid from the General Fund.

Proper allocation of expenses is necessary for the city to ensure the water and trash rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services.

WE RECOMMEND the Board of Aldermen:

- A. Consider appointing separate individuals to the positions of City Clerk and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- B. Require the City Clerk to make the fund transfers and adjustments as necessary to correct the errors in the city's accounting records.
- C. Obtain adequate bond coverage for all persons handling city monies.
- D. Investigate old outstanding checks and reissue them if the payees can be located. If the payees cannot be located, the monies should be disposed of in accordance with applicable state laws. Procedures to routinely investigate checks that remain outstanding over a specified period of time should be established, and voided checks should be posted to the city's computerized financial records on a timely basis.
- E. Maintain a control ledger of water deposit receipts, disbursements, and balance and reconcile the balance to the total individual water deposits per the monthly water billing report.
- F. Maintain all city funds in interest-bearing accounts.

- G. Ensure water is shut-off in accordance with city code when accounts are delinquent.
- H. Ensure all payroll and payroll tax expenditures are properly allocated to the various funds and are supported by adequate documentation.

AUDITEE'S RESPONSE

- A. *The Board of Aldermen disagrees with this. There are not many people in the city and it would be hard to separate the tasks between two people.*
- B. *The Board of Aldermen agrees. The City Clerk has or is taking care of these items.*
- C. *The Board of Aldermen disagrees with getting bond coverage for the Mayor and alderman because they do not handle cash.*
- D. *The Board of Aldermen agrees and has made an effort to get the outstanding checks taken care of.*
- E. *The Board of Aldermen agrees. The City Clerk will start keeping a log of the meter deposits and refunds.*
- F. *The Board of Aldermen agrees. The City Clerk will see what it will take to put all monies into interest-bearing accounts.*
- G. *The Board of Aldermen agrees. The City Clerk and water operator are implementing this.*
- H. *The Board of Aldermen disagrees. We think all of the City Clerk's wages should be taken out of the Water Operating Fund, because that is the fund that receives the most revenue.*

2.

Computer Controls and Procedures

Access to the city's computerized records is not restricted. In addition, backup copies of the computerized records are not prepared.

- A. Passwords and user identification codes (IDs) are not used to restrict access to the city's computerized accounting and water/trash billing and collection records. Anyone who uses the community center has access to city hall because there is not a locked door which separates the two spaces. In addition, the city hall is not always occupied since the city clerk only works part-time. This unrestricted access to the city's computerized records weakens controls over the city's accounting and water/trash systems and increases the risks of unauthorized use and modification of the data.

The ability to access and change computerized information should be limited to those individuals who need such access for the performance of their duties. Passwords and IDs should be used to restrict access to the city's computerized records and should be changed on a regular basis.

- B. Backup copies of computer programs and data are not prepared and stored off-site. Backup copies of computer information are necessary to provide a means for recreating destroyed data. Backup copies should be maintained and stored off-site to provide increased assurance that city data can be recreated.

A similar condition was noted in our prior report, and the city indicated the board agreed with this issue; however, no action was taken to implement the prior recommendation.

WE RECOMMEND the Board of Aldermen:

- A. Implement a password and ID system which restricts access to the city's computerized records. Passwords and IDs should be kept confidential and changed periodically.
- B. Ensure backup copies of computer programs and data are prepared periodically and stored in a secure, off-site location.

AUDITEE'S RESPONSE

- A The Board of Aldermen disagrees because only city employees have access to the computer.*
- B. The Board of Aldermen agrees. The City Clerk has started backing up the water files and the QuickBooks file. The City Clerk will check on getting a lock box at the bank for storing backup files.*

3. Minutes, Meetings, and Ordinances

Numerous problems were noted with the city's procedures for conducting and documenting board meetings, providing public access to records, holding property tax hearings, and establishing and maintaining ordinance records.

- A. Board minutes are not signed to attest to their completeness and accuracy. The board minutes should be signed by the Mayor and City Clerk upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.
- B. Meeting notices and agendas are not prepared for regularly scheduled monthly board meetings. Only meeting notices for special board meetings are prepared.

Section 610.020, RSMo, requires a tentative agenda and a meeting notice to be posted for all open meetings of a public governmental body.

- C. Board minutes did not always include sufficient detail of matters discussed and action taken. For example, bid information was not always documented. In addition, the decision to hire the niece of an alderman as the city clerk in August 2003 was not documented. Because the board minutes did not document any discussion or votes regarding the hiring, it was not determinable whether the aldermen abstained from participating in the hiring decision.

Section 610.020, RSMo, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Minutes serve as the only official permanent record of decisions made by the board. Therefore, it is necessary the minutes be prepared to clearly document all business conducted.

- D. Minutes are not maintained of closed board meetings. Also, open meeting minutes did not always document the related vote to close the meeting and the specific reasons for closing the meeting.

Effective August 28, 2004, Section 610.020, RSMo, provides that minutes of closed meetings should be prepared and retained.

In addition, Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to specified subjects, including litigation, real estate transactions, and personnel issues. Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason(s) for the closed meeting shall be voted on at an open session.

- E. The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. This policy should identify a person to contact, provide an address to mail such requests, and establish a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. Section 610.026, RSMo, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

- F. The board did not always hold public hearings on the city's proposed property tax rate. A property tax rate hearing was not held in 2003, and the 2002 property tax rate hearing minutes did not indicate the rate to be levied.

Section 67.110.2, RSMo, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard.

The section also provides guidance on what information is to be included at the public hearing.

G. The city ordinances do not appear complete and up-to-date. Additionally, the city has not adopted ordinances required by state law and/or needed to govern the city.

1. Many of the city ordinances appear old and outdated and some could not be accounted for or located. There is no summary listing of ordinances passed and rescinded or a central file of ordinances.

The city provided us with a 1982 codification which is basically an outdated version of the articles of incorporation and ordinance number 165. As noted in our prior report, ordinances passed between 1982 and 1997 could not be located. Although the City Clerk indicated water rates are set by ordinance, she was unable to locate the ordinance for the current rates. The only recent ordinances located pertained to fireworks, mandatory trash pickup, nuisances, weeds, and dangerous buildings.

Since ordinances represent legislation passed by the board to govern the city and its residents, it is important that they be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to city ordinances. A complete set of the original signed ordinances should be maintained at city hall.

2. The city has not adopted ordinances to address all issues required by state law, including current compensation of officials and employees, terms of office and duties for appointed officials, and property tax rates. In addition, ordinances used to govern the city such as personnel policies and procedures and bidding policies and procedures have not been adopted.

Sections 79.270 through 79.320, RSMo. require the duties, powers, compensation, and terms of office of city officials and employees be set by ordinance. Sections 94.190.3 and 94.210, RSMo, require the property tax rate be set annually by ordinance. Additionally, the city's policies and procedures should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

Conditions similar to B. through G. were noted in our prior report, and the city indicated the board agreed with these issues; however, no action was taken to implement the prior recommendations.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the board minutes are signed by the Mayor and the City Clerk to attest to their completeness and accuracy.

- B. Ensure meeting agendas and notices are prepared and posted for board meetings.
- C. Ensure minutes clearly document all business conducted.
- D. Ensure minutes are prepared for all closed meetings. The open meeting minutes should document the vote and state the reasons for going into closed session.
- E. Develop written policies regarding procedures to obtain access to, or copies of, public city records.
- F. Hold a public hearing on proposed property tax rates as required by state law.
- G. Ensure a complete and up-to-date set of codified ordinances is maintained. This would include passing new ordinances where appropriate and required.

AUDITEE'S RESPONSE

A&B. The Board of Aldermen agrees and these recommendations have been implemented.

C. The Board of Aldermen agrees and the City Clerk will document the minutes in more detail.

D&F. The Board of Aldermen agrees and will implement these recommendations.

E. The Board of Aldermen agrees and will implement a policy.

G. The Board of Aldermen agrees and will try to get this done.

4.	Budgets and Financial Reports
-----------	--------------------------------------

Budgets are not prepared and financial statements are not published as required by state law. In addition, annual financial reports are not always prepared and monthly financial reports are not complete and accurate.

- A. The city does not prepare and adopt annual budgets. Section 67.010, RSMo, requires the preparation of an annual budget which presents a complete financial plan for the ensuing year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of ending available resources. The

budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding years.

- B. The city does not publish semi-annual financial statements as required by state law. Section 79.160, RSMo, requires the board to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six-month period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.

Similar conditions were noted in our prior report, and the city indicated the board agreed with these issues; however, no action was taken to implement the prior recommendations.

- C. The city did not submit an annual financial report to the State Auditor's Office for the year ended June 30, 2003, as required by state law. In addition, the financial report submitted for the year ended June 30, 2002 was not complete or accurate. For example, various receipts, certificates of deposit, and cash balances were not reported. In addition, the report included the assessed valuation for the previous year.

Section 105.145, RSMo, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office. The board should ensure annual financial reports submitted to the State Auditor's Office accurately and completely reflect the financial activity and balances of the various city funds.

- D. The monthly financial reports presented to the board are not complete and are not always accurate. As noted in finding number 1, in summer/fall 2003, numerous recording, depositing, and disbursing errors made were not detected. The following problems were also noted:

- Approximately 95 deposits, checks, or voided checks were not recorded on the monthly reports between July 1, 2002 and February 29, 2004. It appears these transactions were omitted from the reports because the transactions were posted to the city's computerized financial records after the monthly financial reports were generated.

Transactions should be posted to the computerized financial records on a timely basis to ensure monthly financial reports will be complete and accurate.

- Certificate of deposit balances are not updated as interest is earned and added to the certificate's balance. The city's two certificates of deposit were valued at \$23,185 and \$15,139 at February 29, 2004, but the balances reported on the monthly financial report were \$20,564 and \$12,763, respectively.

A complete and accurate financial report is necessary to make informed decisions and provides a basis for monitoring financial activity.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in accordance with state law and make periodic comparisons between budgeted and actual revenues and expenditures.
- B. Publish semi-annual financial statements as required by state law.
- C. Submit complete and accurate annual financial reports to the State Auditor's Office as required by state law.
- D. Ensure financial reports are complete, accurate, and provide sufficient information to monitor financial activity.

AUDITEE'S RESPONSE

A&B. The Board of Aldermen agrees and these recommendations have been implemented.

C. The Board of Aldermen agrees and the City Clerk will try to do a better job of filling out the reports.

D. The Board of Aldermen agrees and the City Clerk will implement this recommendation.

5. Disbursements

The city does not have a formal bidding policy. Adequate supporting documentation was not retained for some disbursements, and some payments totaling greater than \$600 in one year to non-employees and unincorporated business were not reported to the federal government as required. In addition, payroll tax returns are not always prepared and submitted to the applicable government agency on a timely basis.

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. For example, only one bid was obtained for large purchases such as water tower tank service costing \$22,355 and property and liability insurance costing \$2,475. Also, bids were either not solicited or bid documentation was not retained for culvert replacement costing \$1,300.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. A formal policy could include when various approaches for bidding, such as the

requirement to advertise for sealed bids, are appropriate. Whichever approach is used, complete documentation should be maintained of all bids received and reasons why the bid was selected.

- B. Vendor invoices or other supporting documentation were not properly retained for the following disbursements made from July 2002 to February 2004:

Culvert replacement	\$1,300
Park renovations	378
Water testing	365
Office supplies	361
Park supplies	96
Postage	74
Park maintenance	50

In addition, a \$75 check was issued to a vendor, but the supporting invoice only totaled \$48. Also, a \$300 payment for legal services was supported by an invoice, but the invoice did not indicate the number of hours worked or the hourly rate being billed.

All disbursements should be supported by paid receipts or itemized vendor invoices to ensure the obligations were actually incurred and the disbursements represent appropriate uses of public funds.

- C. The city has not established procedures to ensure all payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the Internal Revenue Service (IRS) as required. For calendar year 2003, the city did not report all applicable payments to vendors for street repairs and culvert replacement, totaling \$18,213 and \$1,300, respectively.

Sections 6041 through 6051 of the Internal Revenue Code require non-wage payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on 1099-Misc form.

Similar conditions were noted in our prior report, and the city indicated the board agreed with these issues; however no action was taken to implement the prior recommendations.

- D. Payroll tax returns are not always prepared and submitted to the applicable government agency on a timely basis. For example, the quarterly tax return for the third quarter of 2003 was prepared and submitted to the IRS in January 2004. As a result, the city incurred interest and penalties totaling \$56. In addition, in February 2004, the city received a letter from the IRS requesting the quarterly tax return for the quarter ending September 30, 1998, and the annual federal unemployment tax return for the year ending December 31, 1999. The City Clerk has been unable to locate copies of the returns or other documentation to verify

the returns were prepared and submitted to the IRS with payment when they were originally due.

To avoid interest and penalty payments, payroll tax returns should be prepared and submitted to the applicable government agency on a timely basis. In addition, copies of the returns should be retained.

WE RECOMMEND the Board of Aldermen:

- A. Establish a formal bidding policy. Such a policy could require competitive bids be solicited through advertising for any purchases over an established amount.
- B. Obtain and retain adequate supporting documentation, including invoices, for all disbursements made.
- C. Establish procedures to ensure payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the IRS as required.
- D. Prepare and retain copies of all payroll tax returns and ensure they are submitted to the applicable government agency on a timely basis.

AUDITEE'S RESPONSE

- A. *The Board of Aldermen agrees and will implement this recommendation.*
- B&D. *The Board of Aldermen agrees and the City Clerk will implement these recommendations.*
- C. *The Board of Aldermen agrees and the City Clerk will watch this closer.*

6.

Water Rates

The city has not performed a formal review of the adequacy and reasonableness of the water rates for many years. The Water Fund financial records show a cash balance of \$169,716 at June 30, 2003, with operating expenses and transfers totaling approximately \$32,000 for the year ended June 30, 2003. The Mayor indicated the city is saving money for future repair and replacement costs. However, there is no documentation to support how the water fee was calculated and how much money is necessary to meet future repair and replacement costs.

Water fees are user charges which should cover the costs of providing the related service and maintaining the system, but the rates should not be set at a level which results in an excessive fund balance. The city should perform and document a detailed review of its

water costs, including depreciation, and establish rates to cover the total costs of operations without generating excessive profits.

WE RECOMMEND the Board of Aldermen review water rates periodically to ensure sufficient revenues are generated to adequately maintain the system without generating excessive profits.

AUDITEE'S RESPONSE

The Board of Aldermen agrees and will review rates periodically.

7.

Community Center

The city has not developed a formal written policy regarding allowable uses and applicable rental fees for the community center. In April 1978, the city received a grant to construct a senior center, as an attachment to city hall. In September 2003, the city received a letter from the grantor indicating the grantor no longer had an interest in the senior center and the full ownership and control resides with the city of Nelson. In April 2004, the board adopted a referendum re-designating the senior center as a community center for the people of Nelson and appointing the Mayor to oversee scheduling of events until a Civic Board of Trustees can be appointed.

However, the referendum does not specify the criteria for determining which groups and which types of activities are allowable uses of the community center and any applicable rental fees. To prevent misunderstandings, the board should establish formal written policies indicating criteria for determining which groups and which types of activities are allowable uses of the community center and the rental fees, if any, to be imposed.

A similar condition was noted in our prior report, and the city indicated the board would take the issue under advisement; however, no action was taken to implement the prior recommendation.

WE RECOMMEND the Board of Aldermen establish formal written policies establishing criteria for the allowable uses of the community center and rental fees, if any, to be imposed.

AUDITEE'S RESPONSE

The Board of Aldermen agrees and will implement a policy.

8.**Capital Asset Records**

The city has not prepared and maintained permanent, detailed property records for its capital assets, including land, buildings, equipment, and furniture. In addition, property is not tagged for specific identification and an annual physical inventory of the property is not performed.

Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for capital assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all capital asset transactions, and ensure the accuracy of the recorded capital assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

A similar condition was noted in our prior report, and the city indicated the board agreed with this issue; however, no action was taken to implement the prior recommendation.

WE RECOMMEND the Board of Aldermen maintain records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed and compared to the detailed records.

AUDITEE'S RESPONSE

The Board of Aldermen disagrees because the city does not have much property.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF NELSON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Nelson is located in Saline County. The city was incorporated in 1892 as a fourth-class city. The population of the city in 2000 was 212.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and board members are paid \$30 and \$25, respectively, per meeting attended. The compensation is paid annually in April or at the end of an official's unexpired term. The Mayor, Board of Aldermen, and other principal officials during the year ended June 30, 2003, are identified below.

Elected Officials	Term Expires	Compensation Paid for the Year Ended June 30, 2003
Lindell Boling, Mayor	April 2006	\$ 360
Ruth Younger, Alderman (1)	April 2005	0
Gerald Ulmer, Alderman (2)	April 2005	0
Gale Cornine, Alderman (3)	April 2006	150
Elwood Waller, Alderman (4)	April 2006	50

Other Principal Officials	
Shannon Wells, City Clerk (5)	3,900
Patrick Rafferty, Water Operator (6)	1,325

- (1) Replaced Steve Ragan in the April 2003 election. Mr. Ragan was paid \$275 for the year ended June 30, 2003.
- (2) Replaced Ted Triebsch, Jr. in the April 2003 election. Mr. Triebsch was paid \$300 for the year ended June 30, 2003. Mr. Ulmer resigned, effective April 2004. Ted Triebsch, III was appointed to complete his unexpired term.
- (3) Appointed to replace Denise Crusha in October 2002. Ms. Crusha resigned in August 2002 and was paid \$100 for the year ended June 30, 2003.
- (4) Appointed to replace Dale Butler in February 2003. Mr. Butler resigned in December 2002 and was paid \$175 for the year ended June 30, 2003.

- (5) Resigned in August 2003. Lori Ulmer served as City Clerk from August 2003 to November 2003. Ms. Wells was reappointed City Clerk in January 2004.
- (6) Hired in December 2002 to replace James Crusha, Mr. Crusha resigned in November 2002 and was paid \$877 for the year ended June 30, 2003.

Assessed valuations and tax rates for 2002 were as follows:

ASSESSED VALUATION

Real estate	\$ 459,146
Personal Property	<u>222,587</u>
Total	\$ <u>681,733</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate	Expiration Date
General	\$ <u>.8799</u>	<u>None</u>

A summary of the city's financial activity for the year ended June 30, 2003, is presented on the next page:

	General	Water	Road	Park	
	Fund	Fund	Maintenance	Fund	TOTAL
	Fund	Fund	Fund	Fund	
RECEIPTS					
Property taxes	\$ 6,674	0	0	0	6,674
Motor fuel and motor vehicle taxes	0	0	8,452	0	8,452
County CART distributions	0	0	2,197	0	2,197
Utility franchise taxes	4,034	0	0	0	4,034
Interest	189	3,233	205	0	3,627
Water and trash collections	0	43,509	0	0	43,509
Water deposits	0	534	0	0	534
Other	1,683	0	0	0	1,683
Total Receipts	12,580	47,276	10,854	0	70,710
DISBURSEMENTS					
Salaries and fringe benefits	2,925	5,276	0	0	8,201
Insurance and bonds	1,401	1,238	0	0	2,639
Telephone	280	0	0	0	280
Electricity	2,490	94	0	0	2,584
Water	138	11,728	0	0	11,866
Trash service	0	10,169	0	0	10,169
Advertising	181	0	0	0	181
Postage	37	307	0	0	344
Water system maintenance and repairs	0	882	0	0	882
Water deposit refunds	0	28	0	0	28
Street maintenance and repairs	0	0	19,513	0	19,513
Supplies	18	0	0	0	18
Contract labor	870	449	0	0	1,319
Primacy fees	0	753	0	0	753
Park maintenance and repairs	0	0	0	178	178
Other	573	533	4	0	1,110
Total Disbursements	8,913	31,457	19,517	178	60,065
Receipts over (under) Disbursements	3,667	15,819	(8,663)	(178)	10,645
TRANSFERS					
Transfers from:					
Road Maintenance Fund	0	6,000	0	0	6,000
Water Fund	0	0	1,021	0	1,021
Transfers to:					
Road Maintenance Fund	0	(1,021)	0	0	(1,021)
Water Fund	0	0	(6,000)	0	(6,000)
Total Transfers	0	4,979	(4,979)	0	0
Receipts Over (under) Disbursements and Transfers	3,667	20,798	(13,642)	(178)	10,645
Cash Balance, July 1	25,321	148,918	17,911	652	192,802
Cash Balance, June 30	\$ 28,988	169,716	4,269	474	203,447